

Assessment Schedule – 2008**Economics: Understand marginal analysis and the behaviour of firms (90629)****Evidence Statement**

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence															
A1	One (a)	Monopolistic Competition	Correct answer.																	
A1	(b)	<ul style="list-style-type: none">many producers in the marketeach producer has small percentage of the marketproducers have weak control over priceproducers have a differentiated productproducers have weak barriers to entry	TWO correct features.																	
A2 ^D	Two (a)	<table><tr><th>Quantity</th><th>Total Utility</th><th>Marginal Utility</th></tr><tr><td>1</td><td>200</td><td>200</td></tr><tr><td>2</td><td>350</td><td>150</td></tr><tr><td>3</td><td>420</td><td>70</td></tr><tr><td>4</td><td>460</td><td>40</td></tr></table>	Quantity	Total Utility	Marginal Utility	1	200	200	2	350	150	3	420	70	4	460	40	THREE correct calculations.		
Quantity	Total Utility	Marginal Utility																		
1	200	200																		
2	350	150																		
3	420	70																		
4	460	40																		
A2 ^D	(b) (i)	Price = Marginal Utility or P = MU	Correct answer.																	
A2 ^D or M2	(ii)	<table><tr><th>Price (c)</th><th>Quantity (packets)</th></tr><tr><td>200</td><td>1</td></tr><tr><td>150</td><td>2</td></tr><tr><td>100</td><td>2</td></tr><tr><td>50</td><td>3</td></tr></table>	Price (c)	Quantity (packets)	200	1	150	2	100	2	50	3	THREE correct quantities.	(i) AND FOUR correct quantities in (ii).						
Price (c)	Quantity (packets)																			
200	1																			
150	2																			
100	2																			
50	3																			

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence																									
A2 ^s	Three (a)	<table><tr><th>Output</th><th>AVC</th><th>AC</th><th>TC</th><th>MC</th></tr><tr><td>20</td><td>25</td><td>52.5</td><td>1050</td><td>15</td></tr><tr><td>30</td><td>22</td><td>40.33</td><td>1209.9 (1210)</td><td>22</td></tr><tr><td>40</td><td>24</td><td>37.75</td><td>1510</td><td>29</td></tr><tr><td>50</td><td>25</td><td>36</td><td>1800</td><td>36</td></tr></table>	Output	AVC	AC	TC	MC	20	25	52.5	1050	15	30	22	40.33	1209.9 (1210)	22	40	24	37.75	1510	29	50	25	36	1800	36	TWO correct calculations.		
Output	AVC	AC	TC	MC																										
20	25	52.5	1050	15																										
30	22	40.33	1209.9 (1210)	22																										
40	24	37.75	1510	29																										
50	25	36	1800	36																										
A2 ^s	(b) (i)	Shutdown price = \$22 .	Correct calculation.																											
A2 ^s	(ii)	Fixed cost = \$550 .	Correct calculation.																											
A2 ^s or M2	(iii)	<table><tr><th>Price (\$)</th><th>Quantity</th></tr><tr><td>29</td><td>40</td></tr><tr><td>36</td><td>50</td></tr></table>	Price (\$)	Quantity	29	40	36	50	Enters TWO correct prices.	BOTH (i) AND (iii) correct.																				
Price (\$)	Quantity																													
29	40																													
36	50																													
A2 ^s or M2	(c)	<p>(I) If a firm is experiencing diminishing returns, more variable inputs have to be used to increase each successive output.</p> <p>(E) Since more inputs are required to produce successive units, the marginal cost of these units must increase.</p> <p><i>So diminishing returns cause marginal cost to increase. (Q)</i></p>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation.																										
A2 ^s or M2	(d)	<p>(I) A firm won't supply a product unless it covers the marginal costs of producing it.</p> <p>(E) Because MC increases as output increases, a firm will require higher prices to increase the quantity of wooden seats supplied</p> <p><i>Which means increasing marginal cost causes the upward sloping supply. (Q)</i></p>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation.																										

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	Four (a)	<ul style="list-style-type: none"> price taker homogeneous product no barriers to entry large number of producers perfect mobility of resources perfectly elastic demand curve FOR FIRM 	TWO correct features.		
A3*	(b)		D drawn horizontal at \$3.40 and labelled.		
A3*	(c) (i) (ii)		Q _e where D intersects MC. P _e = \$3.40.		
A3*	(c) (iii)		Shade area vertical height = gap between AC and D at Q _e .		
A3*	(d) (i) (ii)		P _L = \$3.60. Q _L where MC cuts AC.		
A3 or M3*	(e)	<p>Ideas of:</p> <p>(I) Sheep farmers at P_e are earning subnormal profit, so some will leave the market (as they can earn more in other activities).</p> <p>(E) This will cause market supply to fall and thus the market price to rise to where normal profits are being earned.</p> <p><i>With normal profits, there is no force for change so P_L is the long-run equilibrium price. (Q)</i></p>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation.	
A3 or M3*	(f)	<p>Ideas of:</p> <p>(I) When the price rises to P_L, P_L > MC at Q_e is not maximising profit.</p> <p>(E) So the farmer is missing out on marginal profits (on output from Q_e to Q_L) and should operate where P (= MR) = MC (ie Q_L) to maximise profit.</p> <p><i>So the firm will increase output to Q_L in the long run. (Q)</i></p>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation.	

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	Four (a)	<ul style="list-style-type: none"> • price taker • homogeneous product • no barriers to entry • large number of producers • perfect mobility of resources • perfectly elastic demand curve FOR FIRM 	TWO correct features.		
E3	Four (b) (c) (i) (ii) (c) (iii) (d) (i) (ii) (e) (f)	A3* A3* A3* A3* A3* OR M3* A3* OR M3*			1 × M3* AND all 5 A3*

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A3#	Five (a) (i) (ii)		P_e AND Q_e correctly located.		
A2 ^S	(b)		Correctly shifts MC_1 to left and labels new curve.		
A3#	(c) (i) (ii)		P_1 AND Q_1 correctly located.		
A3 or M3#	(d)	Ideas of: (I) After the increase in MC, $MC > MR$ at Q_e . (E) So the firm is making marginal losses (on output from Q_e to Q_1) and will reduce output to Q_1 , where $MC = MR$. <i>In order to maximise total profit. (Q)</i>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation.	
A3 or M3#	(e)	Ideas of: (I) When a monopoly sells an additional unit, it will (tend to) increase TR by the selling price = AR. (E) But to sell an additional unit, the monopoly firm must lower the (market) price (to match consumers' lower MU), so all previous units sell for a lower price, which decreases TR. So the final change in TR from selling the additional unit, which is the MR, <i>will always be less than the selling price. (Q)</i>	A partial answer that has EITHER the I OR the E point OR has BOTH but may also have a significant error.	Has BOTH I AND E points in explanation. Key idea is that AR takes into account all units sold, and each previous unit was sold at a price higher than the marginal unit.	
E3	Five (a) (i) (ii) (c) (i) (ii) (d) (e)	A3# A3# M3# M3#			All FOUR.

Judgement statement

Achievement	Achievement with Merit	Achievement with Excellence
Minimum of: 1 × A1 <i>and</i> 1 × A2 ^S <i>and</i> 1 × A2 ^D <i>and</i> 1 × A3 <i>and</i> 7 other A or M or E	Minimum of: 1 × M2 <i>and</i> 1 × M3 <i>and</i> 1 × A1 <i>and</i> 1 × A2 ^S <i>and</i> 1 × A2 ^D <i>and</i> 1 × A3 <i>and</i> 6 other A or M or E	Minimum of: 1 × E3 <i>and</i> 1 × M2 <i>and</i> 1 × M3 <i>and</i> 1 × A1 <i>and</i> 1 × A2 ^S <i>and</i> 1 × A2 ^D <i>and</i> 1 × A3 <i>and</i> 7 other A or M or E
Codes: A1 refers to the first criterion. A2 and M2 refer to the second criterion. The superscript ^S refers to supply. The superscript ^D refers to demand. A3, M3, and E3 refer to the third criterion.		